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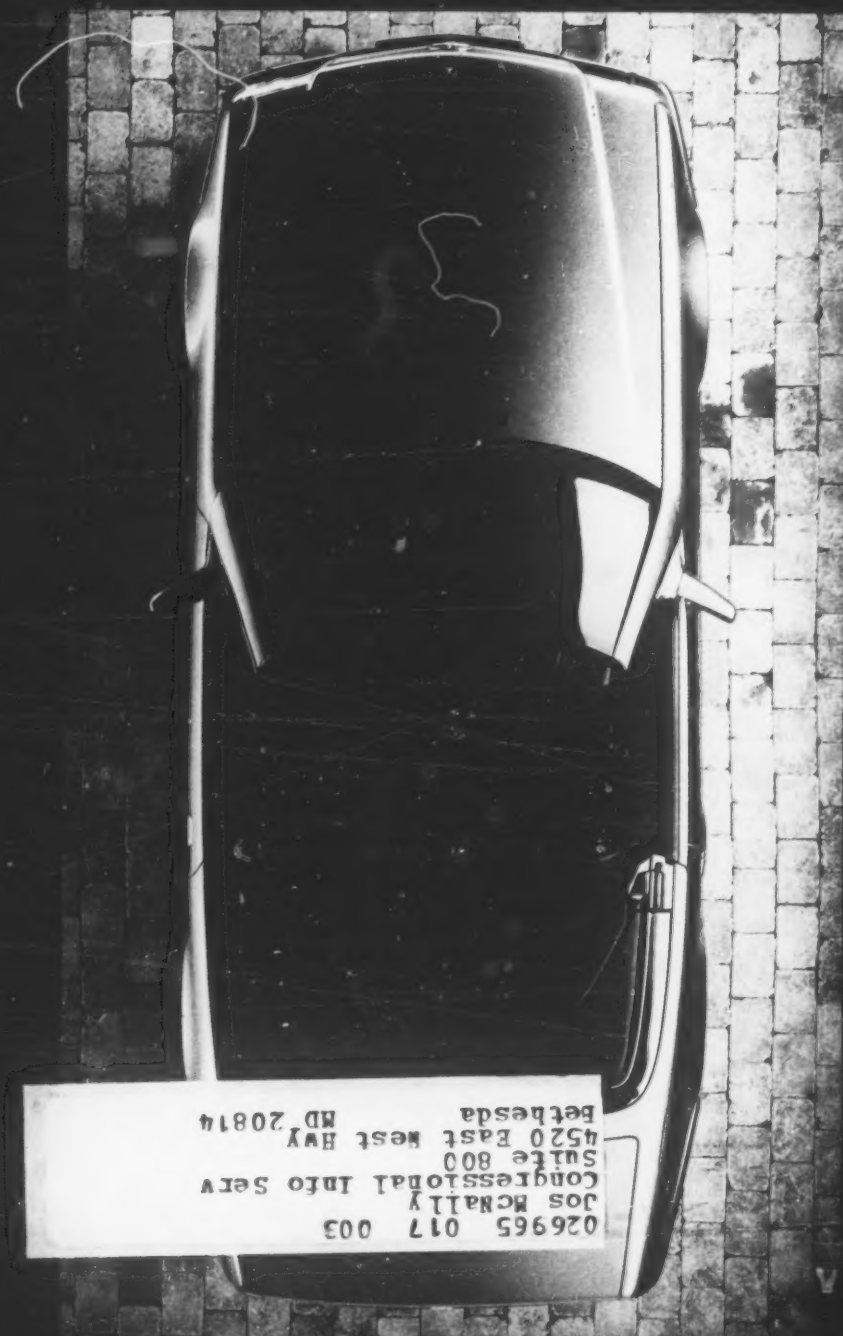
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NEW COLUMNIST:
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AUTOMOTIVE INDUSTRIES

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MERCEDES
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CHILTON'S AUTOMOTIVE INDUSTRIES

SINCE 1898

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Mercedes-Benz leads the 1990 hit parade with its knockout 300 and 500SL. Our annual New Cars issue, bigger and badder than ever, begins on page 38. Cover photo by Mercedes-Benz

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Analyzing Dealer Inventories



RAY WINDECKER's 45 years in the industry culminated at Ford, where he was research and analysis manager, public affairs. He now runs American Autodatum, an 'automotive numbers and words' company.

Misreading days' supply data can cause damage to the automotive community and the economy at large.

Of all the statistical barometers in the auto industry, dealer inventories are probably the most used—and abused.

For example, the auto manufacturers often use the term “dealer” inventory as a description of units at the dealership. But when the media describes the dealer inventory, it includes units at the factory gates, at railroads, on trains and on trucks.

When the media says a manufacturer has a “75-day supply of vehicles,” the factory people are describing the identical data as 65 days at the dealerships and 75 days inventory.

Moreover, there are differences in the way inventories are reported by the domestic manufacturers and the importers.

In recent years, Honda and Toyota were able to brag that they only had an eight-to-10 days' supply of cars at their dealers.

But consider that it logically takes a day or two to move the car off the boat, through the dockside paperwork and marshalling yard, and another day or two for the dealer to receive the car, prep for delivery, notify the customer that the car is available, do the retail paperwork and finally deliver the car. That meant there would be only four to six days transit time to the dealer, and that the dealer would have no inventory—except for those units in the process of delivery.

Obviously, this was not realistic inventory reporting. Though most companies remain reluctant to disclose their inventory counting and reporting procedures, at least one Japanese manufacturer is using a more equitable counting of its dealer inventories of units produced in the US and Japan.

And wouldn't it seem even more equitable to view units at sea as part of the total production process, and units on the dock as part of the distribution system, in the same manner that domestic units are counted as inventory when they leave the factory?

Considering that many importers are now reported to be holding unusually high portside and inland inventories, comparisons to domestic data may be understated.

They probably do it this way because reporting low inventories can be a psychological benefit—measurements of successful management and overall product acceptance!

Another aspect of dealer inventories is the seasonal nature of the business. Automotive plants build cars at a fixed rate per hour, both winter and summer, but people tend to buy more cars in the spring and fewer in the win-

ter. The seasonal nature of sales has been accepted for many years by most analysts and automotive organizations. Yet, it's been ignored by everyone else.

Since domestic car inventories are the ones most often scrutinized and discussed, let's use them as the statistical base in this example of seasonality. During the strong 1985-1988 years, the domestic Big Three averaged 68 days' supply of domestic cars, not the 60 days “norm” that is often quoted.

The seasonal pattern becomes apparent if you simply write down the statistics. The four-year average for the January-end days' supply of the Big Three was 87 days. Only August met the mythical “normal” 60 days level. As shown on the chart, the seasonal range for Big Three inventory days' supply run from 60 to 65 days in the spring and summer to 85 to 90 days in January.

The damage that can be done to the automotive community and the economy at large by misreading this data was painfully apparent this past February. January inventories were quite normal. The Big Three dealers held an 88-day supply of domestic cars at the dealerships and in transit, certainly not a point of more than watchful caution on the part of industry production planners. One company was at 95 days, a concern for that particular company, yet the total Big Three days' supply was within the January range.

Unfortunately, the normal 88 days' supply was seen as excessive against the “60-day norm” and was described as a situation of great concern by one or two analysts who were widely quoted in the consumer media. Buyers were advised to delay their purchases and wait for larger rebates that would be necessitated by the “excessive” inventory.

The fact that the inventory levels were not excessive for the end of January was not understood or was ignored. And while there was virtually unanimous agreement within the analytic community that 1989 sales would trail those of 1988, there's no doubt that sales were reduced by the doomsayers.

There is also the question of inventory volumes and their importance relative to days' supply. Days' supply is a more useful analytic tool than volumes, as it's the product of both inventory units and sales. The days' supply calculation is quite straightforward—month-end unit inventories are divided by the month's daily selling rate. Thus, days' supply is a measure of the travel-rate of

sales against the unit inventory.

Inventory units, while less of an analytic tool, are an expense to the dealer, since he most often has to finance them. For example, a car with a \$10,000 invoice at 10% interest rate will cost a dealer \$83.33 a month in carrying charges.

At the end of the 90 days, the dealer has \$250 interest money invested in the car, less whatever help he receives from his factory, an amount that can range from nothing to substantial, depending on the manufacturer. The end result is that slow-turn merchandise is a problem. Yet it is also true that days' supply, not inventory, is the measure of slow turnover.

One point about inventories that is often misunderstood is that record unit inventories, when they invariably happen, are a direct result of a long-term expansion of industry sales. In much the same way that the sales trend moves upward over the years, pushed up by population and employment

BIG THREE DAYS' SUPPLY Month End Seasonal Range*

January	85-90 days
February	70-75
March	60-65
April	60-65
May	60-65
June	60-65
July	60-65
August	60-65
September	60-65
October	70-75
November	70-75
December	70-75
AVERAGE	65-70 DAYS
Data Base: Jan. 1985-June 1989 *Cars	

growth to create record sales years, it is logical that inventories will follow to service the sales. Not necessarily in lock step, but record sales and record inventories are intertwined.

The oddity is that record sales are generally admired, while record unit inventories are considered by many to be negative, even though both are fueled by the same population and job-holder growth patterns.

Overall, when discussing inventories, it is best to remember that days' supply is considered more important analytically than are units, that there is a seasonal factor, and that unit inventories will at some time in the future be at record levels, as will sales, as both sales and inventories are intertwined.

Only this is certain—the 80-day domestic car inventories of the summer of 1989 were above the 60- to 65-day norms for that time of year, but were substantially and mercifully below the 110-day record of December, 1981. **WD**

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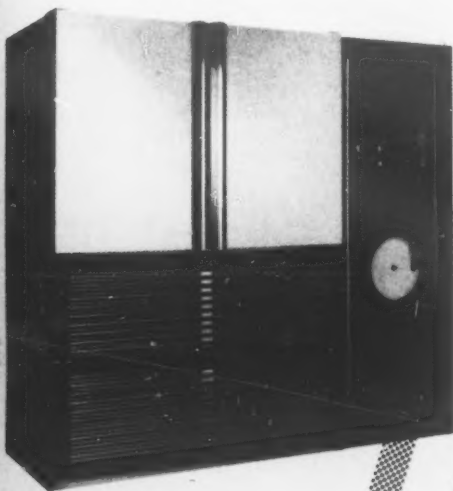
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